

CITY OF WASHOUGAL
Clark County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. The City Should Improve Controls Over Cash Receipting

During our audit of the city's cash receipting system, we noted significant control weaknesses. The particular areas of concern are: utility billing and collections, building permits, and cemetery fees.

- a. Incompatible Duties) The same individuals performed all functions including determination of charges due, customer billing where applicable, cash receipting, and posting of transactions to accounting records without adequate review.
- b. Unauthorized Noncash Credits) Individual utility accounts are adjusted via noncash credits without prior management approval.
- c. Missing Mode of Payment) City personnel do not always include the mode of payment (cash or check) on the receipt forms.
- d. Incomplete Numerical Sequence) Unused or voided building permits are discarded by city personnel, and for part of the audit period, forms were not prenumbered. Therefore, the integrity of the numerical sequence has not been maintained. Individually, each of these conditions is a significant weakness. Collectively their effect is indicative of a pervasive control problem.

The absence of adequate internal controls over cash receipting exposes the city to unnecessary risk of fraud.

These conditions occurred because the director of finance did not consider the potential control risks when she distributed the work load to the staff and established policies and procedures over cash receipting functions.

We recommend the director of finance establish and implement internal controls over all cash receipting procedures which give specific attention to appropriate segregation of duties and management review of pertinent transactions.

2. The City Should Strengthen Controls Over Contracts And Payments For Solid Waste Collection And Disposal

During our review of the city's contracts and related payments for solid waste services, we noted internal control weaknesses and noncompliance with state laws and regulations as follows:

- a. Contract Approval) We found no evidence that contracts regarding solid waste collection and disposal, or the amendment for rate increases to vendors, were approved in open public meetings.
- b. Payment Approval) Payments to vendors for solid waste collection and disposal were approved without adequate documentation. In some instances payments were made from vendor statements rather than original invoices. In other instances, payments were made from a memo prepared by the utility accountant without any documentation supporting the total payment calculations.
- c. Contract Provisions) The city did not require the contractor (Evergreen Waste Systems) to pay for disposal of solid waste collections as specified in the contract, nor did they require the contractor to submit reports to the finance department as specified. The contracts contain the following clause:

It is the sole responsibility of the contractor to provide for and pay all dumping fees associated with hauling city's solid waste and disposal thereof.

The city has made payment to separate vendors for disposal of the city's solid waste at various dump sites without benefit of any written agreement, and in direct contradiction to the existing agreement with Evergreen Waste System. In regards to open public meetings, RCW 42.30.060 states as follows:

(1) No governing body of a public agency shall adopt any ordinance, resolution, rule, regulation, order, or directive, except in a meeting open to the public and then only at a meeting, the date of which is fixed by law or rule

In regards to contracts requiring writings, Chapter 19.36 RCW states:

In the following cases, specified in this section, any agreement, contract and promise shall be void, unless such agreement, contract or promise . . . be in writing, and signed by the party to be charged therewith, or by some person thereunto by him lawfully authorized, that is to say: (1) Every agreement that by its terms is not to be performed in one year from the making thereof

As a result of the cited violations and weaknesses, citizens have been denied input to the contracting process, staff does not have adequate information for gauging the reasonableness of expenditures, and the city is at risk of potential claims when contracts terms are not written and/or followed.

These violations and weaknesses existed because the city's management allowed them to occur.

We recommend the city establish controls to ensure all agreements are in writing and are properly approved in open public meetings. We further recommend the city establish

controls to ensure payments to vendors are made in accordance with written agreements and are adequately documented to ensure their propriety and validity.

3. The City Should Prepare And Submit Accurate Annual Financial Reports

The city prepares financial statements on the cash basis for its governmental funds and on the accrual basis for its water/sewer/garbage utilities. Schedules of Long-Term Debt as well as Schedules of Financial Assistance are also presented for additional information.

During our review of the city's financial records, we noted pervasive errors in each of the statements and schedules, some of which were material to their presentation as a whole.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year, in accordance with the forms and methods prescribed by the state auditor, which shall be uniform for all entities of the same class . . .

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized . . .

When the city does not prepare and file accurate financial reports, users of the reports are denied access to the financial information. Users and their concerns include:

- a. The city council which uses these reports as a management tool.
- b. The general public interested in reports on the cost of public services.
- c. The Washington State Legislature which receives the annual volume of comparative statistics for municipalities published pursuant to RCW 43.09.230.
- d. The Office of State Auditor's staff who note that inaccurate financial reports prolong audit work and, correspondingly, increase audit costs.

The reason that reports and schedules contain repeated, pervasive errors is that no one accepted responsibility for the accuracy of the finished product.

We recommend the director of finance establish and implement sufficient procedures to ensure accurate preparation of the annual reports in accordance with statutory requirements.

4. The City Should Limit Expenditures To Appropriations

Expenditures exceeded appropriations in 1992 and 1993 as follows:

| <u>Year</u> | <u>Fund Name</u> | <u>Amount</u> |
|-------------|-----------------------|---------------|
| 1992 | General Fund | \$1,303 |
| | Paramedics Fund | \$5,471 |
| 1993 | Criminal Justice Fund | \$254 |

These excess expenditures are contrary to the limitations contained in RCW 35A.33.120, which states:

The expenditures as classified and itemized in the final budget shall constitute the city's appropriations for the ensuing fiscal year. Unless otherwise ordered by a court of competent jurisdiction, and subject to further limitations imposed by ordinance of the code city, the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

- (1) The total amount appropriated for each fund in the budget for the current fiscal year

In addition, RCW 35A.33.125 states:

Liabilities incurred by any officer or employee of the city in excess of any budget appropriations shall not be a liability of the city. The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court of competent jurisdiction or for emergencies as provided in this chapter. (Emphasis ours.)

This condition occurred because city officials did not monitor the appropriation balance and amend the budget as needed when expenditures were larger than originally anticipated. Allowing expenditures to exceed appropriations weakens the budget process and associated controls over public expenditures.

We again recommend the city monitor expenditures of all funds and make timely budget amendments to prevent expenditures from exceeding appropriations.

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Schedule Of Federal Findings

1. The City Should Improve Procedures For Preparing The Schedule Of Federal Financial Assistance

As a condition of receiving federal grant funding, the city is required to prepare a Schedule of Federal Financial assistance which summarizes grant activity for the year. During both years of our audit, we noted the following, significant errors:

- a. Expenditures from state grants and local funds were commingled and reported with federal grant expenditures.
- b. Federal expenditures and ending balances were incorrect.
- c. Grants were not identified as received directly from the federal government or received indirectly from another agency.
- d. The schedule did not include the required note disclosures.

The Office of Management and Budget's "Common Rule", Subpart C 20[b](1) requires accurate reporting as follows:

Financial reporting. Accurate, current and complete disclosure of the financial results of financially assisted activities must be made in accordance with the financial reporting requirements of the grant or subgrant.

OMB Circular A-128 requires the display of:

... total expenditures for each federal assistance program as identified in the *Catalog of Federal Domestic Assistance*.

When the city does not prepare and file accurate financial reports as required, users of the reports are denied access to the federal grant information and the city risks loss of federal funding.

These errors occurred because the director of finance did not follow guidelines set forth in the *Budgeting, Accounting, and Reporting Systems* (BARS) manual established by the State Auditor's Office regarding preparation of the Schedule of Federal Financial Assistance.

We recommend the director of finance follow BARS manual guidance and prepare accurate schedules of financial assistance.